

## TAX INCREMENT FINANCING IN WASHINGTON STATE

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Tax Increment Financing (TIF) is a tool to redistribute incremental changes in property taxes to subsidize infrastructure projects within a specific jurisdiction.

Tax Increment Financing is defined in the Revised Code of Washington (RCW) under the Community Redevelopment Financing Act (CRFA). In 1995 the Washington State Supreme Court struck down the CRFA because it violated Article IX, § 2 of the Washington State Constitution. The Court ruled the TIF was being used to redirect funds that were supposed to be used for schools. Article IX, § 2 holds that “the entire revenue derived from the common school fund and the state tax for common schools shall be exclusively applied to the support of the common schools.” Voters denied attempts in 1973, 1984 and 1985 to change the state constitution in order to allow tax incremental financing.

### ***TIF Act***

In 2001, Governor Gary Locke signed the TIF Act into existence. The TIF Act allows cities, counties and port districts to designate a specific area as an “increment areas” and use a portion of the increment increase in general property taxes to pay back general obligation bonds used to finance local improvement projects. The TIF Act differs from CRFA because the TIF Act allows only 75 percent of the increment increase in regular property taxes to be used and exempts property taxes that are designated for common schools and other constitutionally mandated purposes.

### **Limitations**

Application of the TIF Act is limited because:

- Only 75 percent of the incremental increase can be used to repay general obligation bonds
- The City would need to conduct a feasibility study. Estimates indicate that a TIF financing is only viable if \$1 million in bond yield at least \$35 million in increase in assessed value<sup>1</sup>

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<sup>1</sup> *TIF Update*. Jeffrey C. Nave. Municipal & Public Finance News. October 2001.